FIRE INSURANCE, EXPENSES, PROFITS, PROBLEMS

In any discussion of the business of fire insurance, two facts of primal importance must be kept in mind. First, that the indemnity must be of unquestionable value; second, the demand of the buyers of fire insurance indemnity, that they shall be able to purchase it with the same ease and facility that they do their groceries and dry-goods. The first demand has resulted in the reserve requirements of the State. The second, in the agency system, as it now exists. By keeping these two facts in mind, it will be easier to understand the problems connected with the business of fire insurance.

The demand for unquestionable value in fire insurance indemnity arises not only from the belief of the individual that what he buys he should receive, but also from the use to which he may put his contracts of indemnity. To illustrate: a man purchases a policy of fire insurance indemnifying himself against loss by reason of the destruction of his home by fire. First, he wishes to know that he will be indemnified in case of loss. Then he desires to borrow some money upon the security of his home. The one who lends the money not only takes a mortgage upon the home, but also requires that the fire insurance policy be made payable, as his loss may appear, as collateral security. Another illustration: a man buys grain, cotton, wool, or other commodities, and stores them, pending sale and shipment. He finds it necessary to borrow money while they are in the warehouse. The bank requires that along with the warehouse receipt, there be an insurance policy. These two illustrations are sufficient to show the absolute necessity that the policies have the value that is claimed for them.

So thoroughly has this demand been met that it makes but little difference to the holder of a fire insurance policy, issued by a stock company, whether the company goes out of business and re-insures its risks in another company, or carries them to expiration. The reserve requirements of the State are sufficient, so that if the original company finds that the business is becoming unprofitable it is able to re-insure its risks in a going concern. Most buyers of fire insurance policies have, at one time or another, purchased policies of some company which has been re-insured in another company

before the expiration of the policies. The policyholder was protected. It is only in very rare cases that a stock fire insurance company fails so that its contracts lose value. So infrequent are such cases, that they may be fairly taken as a negligible quantity.

This reserve, required by the State, is technically known as unearned premiums and the total unearned premiums of a fire insurance company, taken together with the capital, form the major part of the company's liabilities. This unearned premium fund varies with the term of the policy. For an annual policy, it is fifty per cent. of the original premium and it increases with the length of the term, until in a five-year policy it is ninety per cent. This ratio has been determined upon because it is just about a fair average of the year's premiums. It varies with the varying volume of premium income. Policies are expiring and new ones are being written, but the ratio named suffices to cover the unearned premium liability. The State requires that the company, in order to do business, shall have a surplus over all liabilities and when it ceases to have such a surplus it must either create one, or utilize its unearned premium fund to re-insure its risks in a company which has a surplus. This matter of the reserve is given thus fully, because a good many persons in the discussion of the fire insurance business take no account of this unearned premium liability and rather assume that all there is in the determination of the profitableness or unprofitableness of the fire insurance business is the difference between the premium income and the loss outgo. The application of the reserve principle, has given a certainty of value to fire insurance contracts, which is not excelled by the contracts of any other financial institutions of the country or the world.

The second factor is that of facility in the purchasing of fire insurance policies. The fire insurance business is essentially a retail business with all the expense which attends retailing. The man in the metropolitan city and the man in the new town in the far Northwest can purchase a fire insurance policy with equal facility. There may not be as many companies to choose from in the frontier town as in the metropolitan city, but the man in the frontier town can buy as many insurance policies as he needs. He does not have to go to the city to purchase his insurance, but when he needs it one of his neighbors will sell it to him. In probably no other business, can a man in a small town supply his needs as easily as he can in the pur-

chase of fire insurance policies. This widely extended retail business involves a very large number of salesmen. In the case of the large fire insurance companies, the number runs into the thousands. Some of these retail salesmen or local agents, write a large number of policies during the year, while others only write a few. Because of this widely extended agency system, the company has to rely for information concerning the desirability of the risk upon the local agent, assisted by maps and diagrams. The amount involved in a single agency will not, as a rule, warrant an inspection of any but the larger and more important risks. The agent gives the information to the company which it asks and upon which the men at the home or the branch office are in the main obliged to depend for their information concerning the moral and physical hazard and the desirability of accepting or rejecting. Of course, a careful inspection of each risk would probably reduce the fire loss, but the expense would prove prohibitory. Another supervisory check which the company has is found in its field men who have charge of States, or parts of States and who are the inter- mediaries between the agent and the company. They add to the expense, but their work is of great importance to the companies. This system is now so firmly established that it may be termed one of the fixities of the business.

It should be remarked here that the great bulk of the fire insurance business of the country is transacted by the agency companies through their local agents. Some special classes, such as owners of large mills, employ the mutual system, which calls for no farther attention here than to state that it is based upon a careful inspection of the individual risk which as observed above is not possible for the general fire insurance business. The mill mutual system is a specialty for the few. The stock fire insurance companies' methods and the mutual companies' methods are so variant, that neither one can be used as a basis for a criticism of the other.

A question that is always to the front in the fire insurance business is that of expense. In this particular, fire insurance is not materially different from other lines of business. There is always in all lines of business, a struggle to keep expenses down. The more widely extended the business and the more thoroughly retail it is, as regards extent of territory, naturally the greater the tendency to a large expense. The managers of fire insurance companies strive to keep the expense element at the lowest possible figure, but in spite

of all their efforts the expense is very considerable. There are a good many items in the expense account of a fire insurance company. The heaviest item is that of commissions. The agent is compensated by a commission upon the premium collected. This has gradually increased. During the past five years, 1899 and 1903 inclusive, the commission charges have increased from 20.59% to 21.32% or a little less than one per cent. This seems large, but it is to be remembered that it is the price which the buyer of fire insurance pays for the privilege of doing business with his neighbor. It may not be amiss to take note of the fact that the money paid for commissions remains in the community where the business originates. A company, using the word company in the sense of the stockholders, does not in any way profit by the commission paid for the business. The company simply enters into an arrangement with a man in a given community to sell its fire insurance policies, to those who desire to buy them. When he has collected the money, the company authorizes him to retain a certain proportion for his services which at the present time will average about twenty per cent. the country over. This money is kept in circulation and is a benefit to the community in that it furnishes employment and support to one or more of the members of the community and thus takes them out of the competition in other lines of activity. This is a commonplace, but it seems to be lost sight of many times by those who assert that all money collected on behalf of these insurance companies is withdrawn from the community and sent to the headquarters of the company. Another item of expense is the charge which the State imposes upon the business in the shape of taxes. This amounts to nearly three per cent. The following table gives the premiums received by the companies reporting to the New York department for a period of five years, the losses paid and the taxes:

Year	No. of Companies	Premium Received	Losses Paid	Taxes	Ratio of Taxes to Premiums
1899	162	$134,450,638	$91,031,677	$4,495,332	3.34
1900	158	146,263,565	92,472,967	4,736,250	3.24
1901	146	163,526,207	96,363,509	4,621,006	2.83
1902	145	185,494,632	97,950,790	4,947,898	2.67
1903	147	196,532,866	96,834,018	5,474,156	2.78
		$826,267,908	$474,652,961	$24,274,642	2.97

It will be observed that the total taxes paid by these companies for the five years is in excess of twenty-four million dollars, which is almost as large as the underwriting profit of all the companies reporting to the New York department for the period of ten years. The taxes are in exact figures $24,274,642, and the profits for the ten years ended December 31, 1903, $27,636,698.

One item of expense which does not attract much public attention is that of inspections by field men, local boards of underwriters and special organizations of technical men in matters of construction and equipment of buildings. Take the one item approving materials entering into electrical equipments. This aids in preventing fires, and it should always be remembered that when a company prevents the destruction of property it helps the public even more than it does itself. Property burned is value destroyed which cannot be restored though the owner may be indemnified for his loss. Every dollar's worth of property destroyed leaves the country that much poorer. The companies paid many millions of dollars to the citizens of Baltimore by way of indemnity, but they did not restore to the country one dollar of the value destroyed. The expense of preventing fires is for the public's benefit and aids not only the State by lessening the amount of value destroyed, but also the individual by lessening this fire loss tax.

Then there are the expenses of supervising the business through field men, the adjustment of losses, and the home office expenses. For 1903, the total expenses of each $100 of premiums was $36.91. The ratio of expenses for the period of 1860 and 1903, inclusive, was $37.81. The expenses for 1903 were nearly one dollar below the average for the entire period of forty-three years. A great deal has been said by persons who have studied the fire insurance problem, and those who have only glanced at it, concerning the heavy expense ratio. Those who have criticised it as unnecessarily large have not given any figures upon which a comparison could be based, between fire insurance and other lines of business. It would be interesting if a table could be prepared showing the expense in different lines of industry attendant upon the process of transforming raw material into manufactured products, and placing the same in the hands of the consumer. Taking the fire loss as the raw material and computing the expense of furnishing the indemnity for the same, it is quite probable that the results would not be unfavorable to the fire insur-

ance business. In such a comparison, the premiums collected would not be considered as the basis, but rather the amount of fire loss covered by insurance. The expense would be the expense of distribution. It is sufficient to note this, at this time, without going into the subject in detail. The men in charge of the fire insurance business have made many attempts to reduce expenses and the subject has been under special consideration during the past year and is, at present, a very live question in fire insurance circles. It is not easy to reduce the expenses of a business in which certain customs have become established and certain factors have practically become fixed charges. The commission charge cannot be very materially reduced without entirely changing the system of securing the business. The charges of the State are steadily increasing and the incidental charges will of necessity about keep pace with the growth of the business.

One of the questions much discussed by buyers of fire insurance is that of the premium charge or, as more commonly known, rates. The charge for fire insurance is of necessity based upon the experience of the companies. Whenever the fire loss is heavy and the companies find it necessary to increase the charge, there is complaint of extortion. It is then popular to style the fire insurance companies trusts, and to claim that they are charging a price for the indemnity furnished out of all proportion to the loss outgo. It may be fairly stated that the normal tendency of fire insurance rates is downward; that when the companies have a series of unprofitable years great difficulty is found in increasing the rates; that just as soon as the fire loss lessens, the rates begin to go down again. The competition is so sharp between the companies that just as soon as conditions will at all warrant it, the premiums are reduced to as low a point as is consonant with safety. Given a series of four years of profitable conditions, and fire insurance rates will be reduced in spite of all that any man or set of men in the business can do to prevent it.

There is a good deal of supposition and imagination indulged in in the consideration of the average premium charge. Take the companies reporting to the New York insurance department for the period from 1871 to 1903, inclusive. In 1871, the average rate of premium of the 177 companies reporting to that department was $.9432 per hundred dollars of risk. In 1903, the average premium of the 147 companies reporting to the department was $1.1874. The average

for the entire period was $1.0228. The variation between the first year of the period and the last year of the period was $.2442. This shows that the average rate has not varied anywhere near as much as the criticism of those who have not looked into the subject carefully would indicate. The companies are always endeavoring to induce property owners to make such improvements in the risks and take such steps in the matter of fire prevention that the fire loss may be reduced, and when this is done the rates promptly respond to the improvements. One of the important organizations of the business is the National Fire Protection Association, composed of experts who have given much attention to this phase of the business and who are doing a great deal to bring about a more perfect system of fire prevention and fire resistive construction and thus directly serving the buyers of insurance indemnity.

The question of rating is a troublesome one, from whatever standpoint it is viewed. The ultimate rate has to be based upon the experience of the companies. Attempts have been made to find a better system and improvements have been brought about in this particular. The trouble has been to find a system sufficiently flexible to provide for increases and decreases without resorting to flat reductions or flat increases. Whenever it becomes necessary to impose a flat increase in order to increase the premium income sufficiently to provide for the fire loss, there is always friction. To avoid this has been the object of those fire underwriters who have given special attention to the question of rating. The latest attempt and the best, so far devised, is one prepared by Mr. A. F. Dean, of Chicago, entitled a "Mercantile Tariff and Exposure Formula for the Measurement of Fire Hazards," which is in quite general use in the Western States. This plan divides the cities and towns into six classes, the sixth class being villages which have no protection. An ordinary one story brick building in a town of the sixth class is the basis. This tariff does not attempt to name what is known as a basis rate. Given a basis building, the rates are worked out for each town or district so that when the time comes to readjust rates, they can be readjusted without the necessity of overturning an empirical basis rate. Given this basis in a town of the sixth class, the additions or deductions are made for good or bad features of construction. These additions are made upon what are known as the percentage plan. The rate for the contents is determined by

a differential added to the building rate. This tariff also includes an elaborate system for determining exposure hazards and charges. This is not the place to enter into a discussion of the Dean tariff or of any other fire insurance tariff, but the topic is briefly noted for the purpose of showing that the underwriters are trying to find the best possible means of formulating rates so that they will fit conditions and produce the least possible irritation when changes have to be made. The whole question of rates is exceedingly complex. While the ideal is far distant, progress is being made. To understand the difficulties surrounding the question, it is worth while to pause and take a brief glance at the problems of the rater.

A company is doing business in forty different commonwealths. The conditions are not alike in any two. There is a certain fire loss, the burden of which is to be distributed over these States. It must be distributed with regard to the total aggregate, but this factor is to be modified or, at least, influenced by a group of perhaps a dozen sections. The company has to take note of its entire business. The proportion of the fire loss to the different sections will have an influence upon the construction of the rates for that section, but it cannot be determined upon the section alone, because reference must be had to the whole. Then, again, there are almost innumerable hazards and the same general kind of a hazard is not just the same in all the sections. For instance, a mill in New England turning out the same kind of product that a mill in Illinois or a mill in Georgia does will not have the same physical factors that either of the other two have. The variations must be taken into account. This shows the complexity of the problem and the difficulties under which those labor who make the rates. When it is all taken into account, the wonder is not that the rates are unscientific or a rule of thumb, but rather, considering all factors, that so much progress toward a scientific basis has been made and so much fairness used in treating all the parties concerned.

The public complains of fire insurance rates more than of interest charges. The man who protests most volubly of his fire insurance rate may have borrowed money on a call loan. The bank notifies him of an increase of rate if the loan is not to be called. He pays the increase and makes no complaint because the bank simply followed the course of the market. The Bank of England increases the rate of discount when it chooses and every one acquiesces. It is done in

accordance with the demand. The companies increase their rate in accord with the increased loss demand and are styled robbers and conscienceless trusts. The two interests, banking and insurance, should be viewed from the same mental viewpoint, for each only obeys the laws of the financial world in increasing their rates.

One of the principal counts in the critic's indictment of the fire insurance business is that it is immensely profitable and, because of this fact, that the rates should be materially reduced. This is a serious charge and if the evidence supports the indictment then there is reason for complaint. The findings, however, must be in accord with the evidence, so that it is in order to consider the evidence which may be educed. In determining the profit, several factors must be taken into consideration: first, the amount of capital invested, and, second, the balance available for dividend distribution, after providing for all the liabilities. Third, in determining the dividend distribution, the hazards to which the capital is subjected must be taken into account. In determining this question of profit, the figures of the companies reporting to the New York insurance department will be used, as they appear in the official reports of the insurance department of that State. While these figures do not include all the companies doing business in the United States, so large a proportion of them are included that the results attending the operation of these companies are controlling as to the profit of the insurance business in this country. The first evidence to be introduced consists of two tables made up from the figures of the New York department. The first of these tables is for a single year, and that a profitable one. The second table is for a period of five years, in which the figures of the first table are included.

EXPERIENCE OF 147 JOINT STOCK FIRE INSURANCE COMPANIES, AMERICAN AND FOREIGN, REPORTING TO THE NEW YORK INSURANCE DEPARTMENT.

Premiums, Fire and Marine and Inland	$196,532,866	
Losses paid, Fire and Marine and Inland		$96,834,018
Losses outstanding—increase		1,757,642
Unearned premium reserve—increase		11,351,822
All other claims—decrease	2,858,179	
Actual expenses paid		72,506,480
Profit, 8.61 % of premiums		16,941,083
	$199,391,045	$199,391,045

FIVE YEARS, 1899 TO 1903, INCLUSIVE.

Premiums, Fire, Marine and Inland, five years....	$826,267,908	
Losses paid, Fire, Marine and Inland, five years....		$474,652,961
Losses outstanding—increase..................		4,458,502
All other claims—decrease....................	638,724	
Unearned premium reserve—increase...........		49,542,358
Actual expenses—five years....................		309,080,132
Loss, 1.31 % of premiums.....................	10,827,321	
	$837,733,953	$837,733,953

These tables deal with the underwriting department of the business as distinguished from the investment side of the business. It will be noticed that the underwriting profit for 1903, the period covered by the first table, amounts to $16,941,088, or 8.60% on the premiums of $196,532,866. This covers a period of exceptional prosperity. The second table covers a period of five years, 1899 and 1903, inclusive. Here it will be observed, that the loss amounts to $10,827,321, or 1.31% on the premium income of $826,267,908. From this it will be seen that the profit and loss fluctuations of the fire insurance companies reporting to the New York department are very marked in the period of five years. Despite a profit of 8.61% in one of the five years, the account for the total period shows a loss of 1.31%. In computing the dividends earned upon the capital invested, only the American companies can be used, because the foreign companies are represented in this country by branches; therefore, we have no means of determining the proportion of the foreign companies' dividends which should be credited to American business. The average number of American companies reporting to the New York department during the five years was 116, and the average dividend on the capital was practically eleven per cent. From this, it will be seen that for the five years, the companies lost on a trade profit basis 1.31% on the premium income, while the dividends paid amounted to eleven per cent. These dividends were largely earned by the money which the State compels the companies to hold, in order to make their indemnity unquestionable. This is not a very large profit when all the risks written are taken into account. The risks in 1899 amounted to $17,797,572,061, and in 1903 to $22,007,442,608. Take the year 1903 when the companies had $22,007,442,608 at risk and had a capital of $56,102,875; for each

dollar of capital they had $392 at risk, which is a large hazard when it is taken into account that a few conflagrations would not only use up all the surplus which the companies have accumulated, but would also cause the retirement of many companies.

Taken upon this basis, 11% dividends do not seem to be an excessive return for the hazard to which the capital employed in the fire insurance business is subjected. It is urged, however, by those who estimate the fire insurance business a veritable gold mine, that the companies are piling up an unnecessary and useless amount of money in the surplus fund and that their claim that this accumulation of surplus is justified by what is termed the conflagration hazard, is unwarranted. It is said that conflagrations are of rare occurrence. Away back in the seventies, there was a conflagration at Chicago and another at Boston, but a gentleman, writing upon the subject of insurance last year, soberly stated that there was not much likelihood of a recurrence, owing to the largely improved fire fighting service of the country. It is urged that the provision against the possibility of conflagrations is simply a subterfuge on the part of the companies to accumulate large funds and thus have an excuse for not reducing rates. Some of these criticisms had scarcely been made public, before along came the Baltimore conflagration and upset all theories which attempted to reason that the day of conflagrations had passed.

It might be observed that the stockholders of some of the companies well known to-day were obliged, after the Chicago and Boston fires, to go down into their pockets and practically recapitalize the companies in order that they might continue as going institutions. In other words, the stockholders had to make from fifty to one hundred per cent. contributions in order that their companies might continue in business. The Baltimore conflagration and the subsequent investigations into the conflagration hazard of some of the large cities has revealed the fact that instead of the Baltimore conflagration being out of the ordinary, the wonder is that it did not come sooner and that the companies, in view of the great hazards in the congested centers of the country, have not made undue provision for guarding against conflagrations. When a company is compelled to pay a million dollars on account of a single fire, there is a good reason for the accumulation of large surpluses as a safeguard against conflagration losses. In the investigations into the conditions

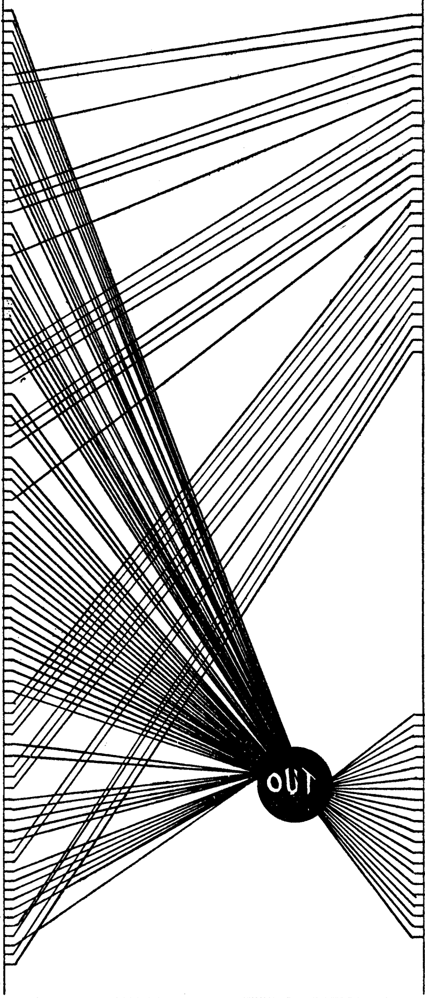
existing in our large cities, in addition to the officials of the National Board of Fire Underwriters, the United States Government participated through one of its specialists. In reporting upon the conditions at Pittsburg, this gentleman, after careful investigation, endorsed all that the fire underwriters have been saying in regard to the hazard to which they are subjected in the large cities, in their work of distributing the fire loss of the country. This cannot in any way be termed partial or biased evidence. It is evidence of a disinterested observer.

There is still another phase of this question of profit of the fire insurance business. In computing the dividends from the figures given in the report of the New York insurance department, only the going companies are included. No account is taken of those companies which have found the heat of the fire insurance business so great that they have been compelled to retire from the field. Now, in determining the profit of the business, account should be taken of the capital which has been forced out because of lack of profit. The two tables given herewith are very instructive upon this question of profit. These tables simply cover American companies, because, as has been said before, there is no capital basis for American branches of foreign companies. The tables cover a period of twenty-five years, beginning with 1878 and ending with 1903. In these tables are included, as going companies, several which, since the beginning of 1903, have been forced out of business by the losses sustained at Baltimore. These tables show at a glance how capital has been forced out of the fire insurance business. The first column of each of these tables shows the companies which were in business and reporting to the New York insurance department, January 1, 1878. The first section of the second column shows the small number of companies which have survived the test of twenty-five years. The second portion of the second column shows the companies which have come into the business since 1878 and are still in. The third section shows the companies which have come into the business since that date and have retired during the period.

NEW YORK COMPANIES IN AND OUT SINCE 1878.

In business Jan. 1st. 1878

Aetna No. 2	$200,000
Adriatic	200,000
Amity	200,000
American Exchange	200,000
American Fire	400,000
Atlantic	200,000
Agricultural	
Albany	
Broadway	200,000
Brooklyn	153,000
Buffalo	200,000
Buffalo German	
Citizens'	300,000
City Fire	210,000
Clinton Fire	250,000
Columbia	300,000
Commercial Fire	200,000
Commerce	
Continental	
Duchess	
Eagle Fire	300,000
Emporium	200,000
Exchange Fire	200,000
Empire City	
Farragut	200,000
Firemen's	200,000
Firemen's Trust	150,000
Franklin	200,000
Firemen's Fund	150,000
Guardian	200,000
Gebhardt	200,000
Globe	200,000
German-American	
Germania	
Glens Falls	
Greenwich	
Hoffman	200,000
Hope	150,000
Howard	500,000
Hamilton	
Hanover	
Home	
Importers and Traders'	200,000
Irving	200,000
Jefferson	200,000
Knickerbocker	280,000
Kings County	
Lamar	200,000
Lafayette	150,000
Lenox	150,000
Long Island	200,000
Lorrilard No. 1	300,000
Manhattan No. 2	250,000
Mfrs. and Builders'	200,000
Mechanics' Fire	150,000
Mechanics and Traders'	200,000
Merchants'	200,000
Montauk	150,000
National Fire	200,000
New York Bowery	300,000
New York and Boston	200,000
New York City	300,000
New York Equitable	210,000
N. Y. Produce Exchange	200,000
Northern	250,000
Nassau	
New York Fire	
Niagara	
North River	
Park Fire	200,000
People's Fire	150,000
Pacific	
Peter Cooper	
Phenix	
Relief	200,000
Republic	300,000
Resolute	200,000
Ridgewood	200,000
Rutgers	200,000
Rochester German	
Stuyvesant	
Safeguard	200,000
St. Nicholas	200,000
Standard	200,000
Star	300,000
Sterling	200,000
Tradesmen	150,000
United States	
Union	
Watertown	200,000
Westchester	
Williamsburg City	
	$13,853,000



Survivors January 1, 1904.

Agricultural	500,000
Albany	250,000
Buffalo German	200,000
Commerce	200,000
Continental	1,000,000
Duchess	200,000
Empire City	200,000
German-American	1,500,000
Germania	1,000,000
Glens Falls	200,000
Greenwich	200,000
Hamilton	150,000
Hanover	1,000,000
Home	3,000,000
Kings County	200,000
Nassau	200,000
New York Fire	200,000
Niagara	500,000
North River	350,000
Pacific	200,000
Peter Cooper	150,000
Phenix	1,000,000
Rochester German	200,000
Stuyvesant	200,000
Union	100,000
United States	250,000
Westchester	300,000
Williamsburg City	250,000
	$13,700,000

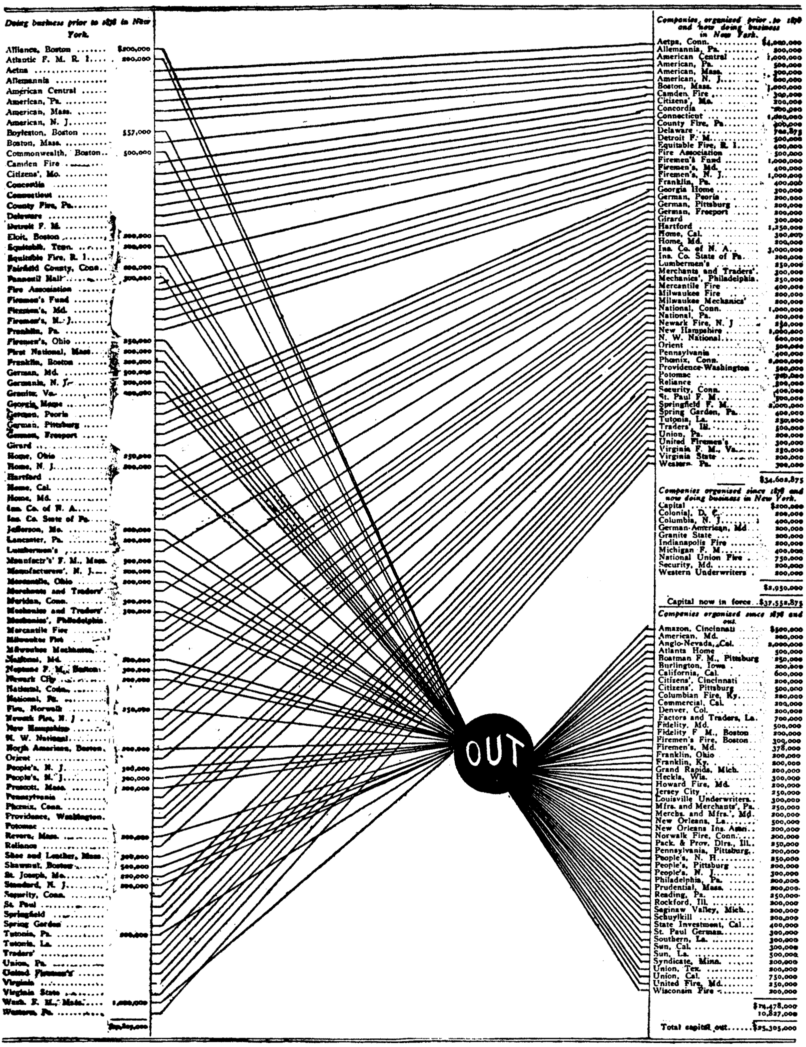
Companies organized since January 1, 1878, and still in business.

Assurance Co. of Am.	$400,000
British-American	200,000
Buffalo Commercial	200,000
Caledonian-American	200,000
Colonial Assurance	200,000
Commercial Union	200,000
Commonwealth	500,000
German Alliance	400,000
Globe and Rutgers	400,000
Indemnity	200,000
Lafayette No. 2	200,000
L. L. and Globe	200,000
North B. and M.	200,000
Northern	250,000
North German	200,000
Pelican	200,000
Queen	500,000
Victoria	200,000
	$4,850,000
Capital now in force	$18,550,000

Companies organised since 1878 and out before 1904.

Alliance	$200,000
Armstrong Fire	400,000
City Fire Assurance	200,000
Eastern	200,000
Empire State	200,000
Fire Association	300,000
Franklin and Emporium	200,000
Ins. State of New York	200,000
International Co. No. 2	200,000
Liberty	800,000
Lincoln	200,000
Magdeburg	200,000
Manhattan No. 3	250,000
Mercantile Fire	200,000
National Standard	200,000
New York Central	100,000
Norwood	200,000
Prudential	200,000
Re-Assurance	200,000
Thuringia	200,000
Traders'	200,000
Washington No. 3	200,000
	$5,250,000
	13,853,000
Capital out	$19,103,000

NON-STATE COMPANIES IN AND OUT OF NEW YORK SINCE 1878.



Taking the table of New York State companies first, it will be noticed that there were ninety-two companies in business at the beginning of 1878. Of these twenty-eight were in business at the beginning of 1904. Forty companies have been organized since 1878, of which number eighteen are still in business. This gives total retirements since 1878 of eighty-six companies, with a capitalization of $19,103,000. The second table shows non-state companies reporting to the New York insurance department. Ninety-four companies were doing business in New York at the beginning of 1878. Of these fifty-eight remain, while thirty-six have gone out of business. Sixty companies have entered the State since 1878, of which ten remain. Eighty-six companies, in all, have been in New York during the period and are now out, representing capital amounting to $23,305,-000. The total capital of companies reporting to the New York department which have gone out of business in the past twenty-five years is $44,408,000. Against this is to be placed the $56,102,875 of capital now represented in the State of New York. Any fair consideration of the profit question must take into account this retired capital. These companies went out of business because it was not profitable to remain in the business. If 11% be considered a fair profit on $56,102,875 of capital now engaged in the business, what shall be said when the capital is increased by $44,408,000 which has gone out, making the total $100,510,875 of capital which has been engaged in the insurance business during the twenty-five years. It is impossible to figure out just where this would place the dividend question, because it is not possible to here compute the length of time that each of these companies did business. Sufficient, however, is the fact that about three-fourths as much capital has gone out as still remains.

Farther evidence along the line of profit is to be had in the fact that during the marvelous industrial expansion of the past few years, a very small amount of money has been put into the insurance business. A very large amount of capital which has been invested in industrial enterprises did not begin to earn 11% dividends. If the business has been so marvelously profitable, capital would have engaged in the business because capitalists are always looking for investments which will earn large dividends with the minimum amount of hazard. Only a few million dollars at the outside have been invested in the fire insurance business in the past five or six

years, while several enterprises have been floated with a capitalization exceeding the entire capitalization of all the American fire insurance companies reporting to the New York insurance department.

The evidence seems all to tend to the support of the proposition that the fire insurance business has not been and is not unduly profitable to the capital engaged in it. It farther appears that the surpluses which the companies have been accumulating as a bulwark against conflagration waves are not to be considered in any sense a withholding of profits which belong to the public by reason of undue prices. On the other hand, these accumulations of surplus appear to be what they are claimed to be, simply a wise precaution on the part of the men managing the corporations to insure that the indemnity they sell shall be worth under all circumstances what it purports to be. Had the fire insurance companies reporting to the New York insurance department distributed their surplus down to an amount which would have been proper in a less hazardous business, many of the companies would have been forced out by the Baltimore conflagration. Farther evidence of the wisdom of this accumulation of surplus may be found in a comparison between the number of companies forced out of business through the Chicago and Boston fires and the number forced out through the Baltimore conflagration. In the earlier days, the companies operated with a smaller surplus, and, as a consequence of insufficient safeguarding, they were unable to stand the strain of a great fire. The managers learned a lesson from those fires and so were in much better position to weather the fire of last winter.

As was stated in the beginning of this paper, what the public desire in the matter of fire insurance indemnity is unquestionable value. Were it otherwise, business could not be conducted, because the fire insurance policy enters into almost every transaction of any importance in this country. As between lower rates and value, there is scarcely any business man in the country who would hesitate about choosing value. He may think from a cursory examination that he is paying too much for his indemnity, but he would rather pay more than less if the less lessened the value. The companies are striving to reduce the expense of transacting the business, but such reduction is difficult to effect and it is not probable that any very large reduction can be expected in the immediate future. Capital is entitled to a fair remuneration for its use and the risks to which it is subjected,

and taking the capital which is in the business and which has been forced out of the business, through lack of profit, and the farther fact that capital is very slow to engage in the fire insurance business at present, it cannot be fairly claimed that the profits of the fire insurance business are unduly large. The business is of wide scope, and the man in the border sections of the country has the privilege of buying insurance at home just the same as the man in the large centers. Taken by and large, with all its shortcomings, with all its problems, with all the hazards covered by it, the growth and development of the fire insurance business is one of the striking features of American finance, and has contributed more than can be enumerated in a paper like this to the general prosperity of the country.

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